



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of City Agencies FY 2017 Budgets: Civic San Diego and the Successor Agency of the Former Redevelopment Agency

The IBA has reviewed the budgets for Civic San Diego and the Successor Agency of the Former Redevelopment Agency. These budgets are scheduled to be heard Tuesday, May 10th, 2016. Our review is attached.

A handwritten signature in blue ink, appearing to read "Charles E. Modica, Jr.".

Charles E. Modica, Jr.
Fiscal & Policy Analyst

A handwritten signature in blue ink, appearing to read "Andrea Tevlin".

APPROVED: Andrea Tevlin
Independent Budget Analyst

City Agencies: Civic San Diego/Successor Agency

Civic San Diego/Successor Agency

Civic San Diego (CivicSD) assists the City in its role as the Successor Agency and the Successor Housing Entity for the purposes of winding down the former Redevelopment Agency's (RDA's) operations, making payments on enforceable obligations, and liquidating the Agency's unencumbered assets for distribution to the County, City, school districts, and other local taxing entities.

Civic SD also provides non-Successor Agency functions, including:

- Providing planning and permitting services for Downtown
- Managing the Downtown Parking District
- Conducting economic development and neighborhood investment activities (including seeking grants and new revenue sources for these activities)
- Providing other as-needed services to the City.

This section of our report provides an

Civic San Diego Background

As a result of the dissolution of California Redevelopment Agencies (RDA) on February 1, 2012, the Centre City Development Corporation (CCDC) was renamed and transitioned into a non-profit public benefit corporation, Civic San Diego (CivicSD), in June 2012. The Southeastern Economic Development Corporation (SEDC) initially became a subsidiary corporation of Civic SD; the two corporations were ultimately merged in early 2013.

overview of budget changes to CivicSD and the City's Successor Agency. A review of budget changes for the Successor Housing Entity is included separately.

Civic San Diego

CivicSD develops an annual budget that is then incorporated into the City's Budget. CivicSD's FY 2017 Proposed Budget was approved by its Board of Directors on March 23, 2016, and posted on its website.

As shown below, the FY 2017 Proposed

SUMMARY OF DEPARTMENT CIVIC SAN DIEGO CHANGES					
Description	FTE	PE	NPE	Total Expense	Revenue
FY 2016 Adopted Budget	40.00	\$ 4,910,000	\$ 2,535,000	\$ 7,445,000	\$ 7,445,801
Programmatic Changes					
Management	(0.38)	95,466	83,465	178,931	178,932
Housing Successor Agency Administration	(0.41)	(36,291)	7,403	(28,888)	(28,889)
Planning and Permitting Functions	0.88	126,433	20,784	147,217	(125,000)
Parking District Administration	0.49	85,836	41,340	127,176	127,178
Economic Development Function	(0.13)	(8,777)	78,832	70,055	171,652
New Market Tax Credit Functions	(0.18)	(20,866)	(2,482)	(23,348)	147,160
Deposits/Other Functions	(0.27)	(31,803)	(181,344)	(213,147)	(213,100)
FY 2017 Proposed Budget	40.00	\$ 5,119,998	\$ 2,582,998	\$ 7,702,996	\$ 7,703,734
Difference from 2016 to 2017	-	\$ 209,998	\$ 47,998	\$ 257,996	\$ 257,933

City Agencies: Civic San Diego/Successor Agency

Budget for CivicSD totals \$7.7 million, an increase of \$258,000 or 3.3% over the FY 2016 Adopted Budget. The Proposed Budget includes 40.00 FTE positions, which represents no change from FY 2016.

The bulk of expenditure increases in CivicSD's FY 2017 Budget are associated with increases in personnel expenses, largely for merit-based increases of up to 3.0% for CivicSD personnel. Non-personnel expenses across Civic's functions total \$2.6 million, a slight increase of \$48,000 or 1.9% over FY 2016.

CivicSD revenues in the FY 2017 Proposed Budget total \$7.7 million, which also represents a 3.3% or \$258,000 increase over FY 2016. Revenue increases are largely related to increased Parking District/Garages revenue, reimbursements from the New Market Tax Credit fund, and an increase in permit and planning fees.

Issues to Consider

Impact of Potential Denial of Project Management Costs

Civic San Diego revenues rely, in part, on the transfer of project management costs from the Successor Agency's ROPS distributions. ROPS 10 included a request for \$3.6 million in project management costs, of which \$1.8 million would be allocated to CivicSD. The preliminary determination letter from the State Department of Finance (DOF) denied funding for project management costs. If these costs remain denied in the final DOF determination, CivicSD will likely have to scale back its operations accordingly. A more detailed discussion of the ROPS request and the DOF's initial position is included in the Successor Agency portion

of this report.

Differences in Budget Presented to CivicSD Board and City Council

Our review is based on the CivicSD Budget submitted to the Council on April 25, 2016. The Budget presented to CivicSD's board on March 23, 2016 included \$8.1 million in expenditures and \$8.1 million in revenues. Each of these amounts is roughly \$390,000 higher than they are in the budget that was submitted to Council. Council may wish to inquire as to the reasons behind these changes.

Successor Agency

Background

Per AB 26, enacted on June 28, 2011, California Redevelopment Agencies were dissolved effective February 1, 2012. Their rights, duties, and obligations were vested in successor agencies. The City Council designated the City of San Diego as the former RDA's Successor Agency for the purposes of winding down its operations, making payments on enforceable obligations, and liquidating unencumbered assets.

A large part of wind-down activities involves making payments on enforceable obligations of the former RDA. State law requires successor agencies to prepare Recognized Obligation Payment Schedules (ROPS) that detail each enforceable obligation held by the Successor Agency in a given 12-month window. Each ROPS must be approved by the State Department of Finance.

Funding sources for each ROPS item include the Redevelopment Property Tax Trust Fund (RPTTF), which was formerly known as the tax increment, bond proceeds, and other revenue such as rental in-

City Agencies: Civic San Diego/Successor Agency

come.

RPTTF is distributed by the County Auditor Controller (CAC) in January and June per approved ROPS submittals. State law also allows the Successor Agency to receive an administrative cost allowance equal to 3% of Agency's RPTTF distribution.

Disolution Implementation

The City has an agreement with CivicSD to carry out wind-down functions. This agreement includes:

- Administering existing contracts
- Processing payments
- Preparing a ROPS for each 12-month period
- Coordinating with the DOF
- Providing project management, property management, and other related duties

As shown below, CivicSD accounts for \$3.5

Successor Agency – A separate legal entity from the City, the Successor Agency is responsible for winding down the affairs for the former RDA. The budget is primarily funded with the RPTTF 3% administrative cost allowance.

Successor Housing Entity – The same legal entity as the City, the Successor Housing Entity assumes the affordable housing assets and related responsibilities of the former RDA. Funding for administrative support is derived from the Low- and Moderate-Income Housing Fund.

FY 2017 SUCCESSOR AGENCY BUDGET (BASED ON ROPS 10)			
	Administrative Costs	Project Management Costs	FY 2017 TOTAL
EXPENDITURES			
Legal Services			
City Attorney's Office	\$ 325,000	\$ 360,000	\$ 685,000
Outside Legal Counsel	50,000	240,000	290,000
Oversight Board Legal Counsel	76,000	-	76,000
Financial Services			
Debt Management Department	100,000	-	100,000
Accounting Services			
Comptroller's Office	456,000	-	456,000
Real Estate Services			
Real Estate Assets Department	272,000	-	272,000
Administrative Support Services			
Economic Growth Services Department	50,000	200,000	250,000
Other City Departments	-	935,000	935,000
Civic San Diego	1,670,000	1,800,000	3,470,000
Other Consultants	150,000	-	150,000
General Governmental Services	594,000	-	594,000
Contingency	100,000	100,000	200,000
Oversight Board Insurance	6,000	-	6,000
Total Expenditures	3,849,000	3,635,000	7,484,000
FUNDING SOURCES			
Admin Fee (3%)	2,967,760	-	2,967,760
RPTTF Distributions	-	3,635,000	3,635,000
Other Sources	881,240	-	881,240
Total Funding Sources	3,849,000	3,635,000	7,484,000

City Agencies: Civic San Diego/Successor Agency

million or 46.4% of the total \$7.5 million FY 2017 Budget for the Successor Agency.

In addition to CivicSD, staff from several City departments provide legal, financial, accounting, and administrative services for the Successor Agency to facilitate dissolution.

Proposed Budget

The FY 2017 Budget for the Successor Agency is based on expenditures included in ROPS 10. ROPS 10 was approved by the City Council on January 19, 2016, and submitted to the State DOF. The State is expected to issue a final determination on the ROPS submittal by mid-May.

Expenditures in the FY 2017 Successor Agency Budget total \$7.5 million, which is an increase of \$826,000 over FY 2016.

Revenues in the FY 2017 Successor Agency Budget also total \$7.5 million. Primary funding sources for the Successor Agency include \$3.6 million in RPTTF distributions for project management costs, and \$3.0 million from the 3% administrative allowance. An additional \$881,000 in other funding sources, such as rental income and bond proceeds, is also included.

Issues to Consider

Potential Denial of Project Management Costs

As noted in our review of the Proposed Budget for CivicSD, the State DOF has indicated that it may deny the \$3.6 million in project management costs that was included in the ROPS 10 submittal. Staff from CivicSD engaged in a meet-and-confer process with the DOF to argue in support of those

costs on April 27th. The DOF's final determination is expected to be issued later this month.

Project management costs have been included in each of the previous ROPS submittals to the State DOF, and have been approved by the DOF for each of those ROPS periods. Should the DOF deny the project management costs in ROPS 10, it would represent a significant change in the DOF's practices.

Nevertheless, if the \$3.6 million in project management costs included in ROPS 10 is denied, nearly half of the administrative budget for the Successor Agency will have to be cut. CivicSD staff indicates that this would likely require delaying implementations of currently planned projects until other funding sources could be identified.

Council should receive an update on the DOF's decision on this matter when the DOF's final determination letter is sent later this month.